

MILL CREEK

HOUSE VIEW SUMMARY

July 2021

GLOBAL ECONOMY

- The post-COVID global economic recovery will continue as vaccine distribution expands globally during 2021 and 2022.
- Global economic real GDP growth is likely to peak in 2021 at around 6% and moderate back to 3-4% annualized growth thereafter.
- Global supply chain constraints and accelerating demand will result in above-trend inflation worldwide during 2021 and 2022.

US ECONOMY

- US GDP growth is likely to reach 6-7% in 2021 due to pent-up demand, fiscal stimulus, and highly-accommodative monetary policy. There are [abnormal frictions in the US labor market](#) that will gradually subside in 2021, but labor force participation will not recover to pre-COVID levels.
- Current [above-trend inflation will ultimately prove transitory](#), but [inflation will stabilize](#) at a higher level – 2.5% – than pre-COVID. The Fed will begin tapering asset purchases in late 2021 or early 2022.
- The first Fed Funds rate hikes are unlikely to occur before 2023.

LONG VIEW

- High quality fixed income [will likely produce negative real returns](#), on average, over the next 7-10 years.
- Equity valuation [imply positive but lower-than average returns](#) for US equities [over the next 7-10 years](#).
- Private equity and private credit will play an increased role in driving investment returns.

TACTICAL POSITIONING

- We have [reduced interest rate risk in our bond portfolios](#).
- We believe [fixed income will outperform cash](#) by a meaningful margin.
- Our tax exempt FI portfolios [are overweight credit risk](#) relative to the index.
- Despite [speculative behavior in some parts](#) of the equity market, [US equities are not exhibiting bubble-like characteristics](#).
- Within equities we are overweight US equities, small cap global equities, and EM Asia.

RISKS WORTH WATCHING

- An [overly-hawkish misstep](#) by the Federal Reserve.
- A deterioration of relations between the US and China (trade) or the US and Iran (oil prices) that results in an exacerbation of the current supply shock.

For additional information about our insights, please visit the relevant link shown.